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GDP figures show a bumpy road ahead for Indian economy

Continued elevated input prices, expected pass-through risks impinge on growth

By Abhinav Singh | Updated: June 01, 2022 19:06 IST

Growth momentum in the Indian economy remained slow, with the Q4 FY 2022 GDP growth slowing down by 4.1 per cent from the previous quarter, partly due to the temporary restrictions that were imposed to contain the spread of Omicron variant in January 2022. The near term growth also remains muted, with uncertainties emanating from the ongoing geopolitical conflicts, weakening global demand, limited scope for incremental government spending, and tightening financial conditions.

What comes as a relief is that the GDP growth for the entire FY 2022 stood at 8.7 per cent. Most of the experts, however, have maintained their estimates of GDP growth for the entire FY 2023 between 7 to 7.3 per cent.

As per a report by Kotak Institutional Equities, the year ahead looks tough and is clouded with uncertainties emanating from the geopolitical developments and consequent impact on commodity prices, especially crude oil. The report points out that the recent fiscal measures on excise duty and food import and export related measures should partly alleviate the eroding purchasing power of consumers. However, continued elevated input prices and the expected pass-through risks are impinging on growth.

The report points out that going ahead, the key challenges would be weakness in consumption demand given the impact of cost-push inflation and weakness in broader labour market, delayed pickup in private sector investment given relatively weaker demand visibility along with increasing cost of borrowing, limited ability of central and state governments' expenditure on public infrastructure, and weakening global growth.

Similarly, experts at Emkay Global too have slashed the entire FY 2023 growth to 7 per cent due to sustained global uncertainties and tighter financial conditions. The Emkay Global report points out that the impact of geopolitical tensions and the magnitude of the energy supply shock are uncertain. This implies a protracted shortage of critical inputs, higher costs, shrinking corporate profitability and demand curbing global policies. This will exert pressure on India's domestic growth story, which is yet to be broad-based and still lacks the next lever of secular growth.

The report observes that the growth plunged in manufacturing, partly due to supply chain disruptions and sequential easing in corporate profitability, driven by rising input costs.

Anand Rathi Securities, however, pointed out that though growth slowed down further, India still is the fastest growing economy for the year and while India's GDP growth slowed down to 4.1 per cent in Q4 FY22, growth for FY22 accelerated to 8.7 per cent. According to the report, investment has been the main driver and net exports the main drag during the year as well as the quarter.

"India's GDP growth during Q4 FY22 at 4.1 per cent and FY22 at 8.7 per cent were slightly behind our expectations. Investment has been the main driver of India's GDP growth during both the latest quarter and the last financial year. In contrast, consumption, both private and government, trailed investment. For the full year, industry has grown faster than services while for the latest quarter services has grown faster than industry. The speedier recovery of industrial activities and demand, coupled with protected recovery of high touch services led to this. On the other hand, net exports dragged down growth. Faster import versus export growth trimmed India's GDP growth by an additional 200bps over the usual. Containment of government consumption also depressed growth. From 8.7 per cent growth in FY22, we expect the rate to come down to 7.5 per cent in FY 2023 due to factors such as monetary and fiscal tightening, higher interest rates, supply disruption and global slowdowns. Yet, as in FY22, India is likely to remain the fastest growing major economy in FY23 as well," remarked Sujan Hajra, chief economist at Anand Rathi Securities.

Experts have also noted that the downward revision in last fiscal's GDP growth was expected due to the scare caused by omicron variant and the Russia-Ukraine conflict. "The Indian economy in fiscal 2022 was only 1.5 per cent above the pre-pandemic level (fiscal 2020), compared with 1.8 per cent estimated earlier. But the good part is that estimates for both private consumption and fixed investment estimates are a touch higher than before. Peak impact of interest rate hikes on GDP will be felt only towards the end of this fiscal year. I see support to growth from a strong bounce-back in contact based services, which last fiscal was about 11.3 per cent lower than fiscal 2020 levels. But headwinds from slower global growth and higher oil prices have tilted the risks to our forecast of 7.3 per cent for the current fiscal downwards," observed Dharmakirti Joshi, chief economist, CRISIL.

Experts say though there are challenges ahead and the economic outlook remains clouded, there are also certain positives to look out for. "Positive indicators such as high forex reserves, government's continued focus on capital expenditure and improved agriculture growth owing to higher realisations in cultivation income which are expected to act as tailwinds that can support GDP growth and keep India one of the fastest growing major economy of the world in FY22-23. Slowdown in global growth, elevated energy prices, rising interest rate cycle and tightening of financial conditions will be key headwinds," remarked Vivek Goel, co-founder and joint managing director, Tailwind Financial Services Limited.

Many in India Inc are, however, upbeat and the GDP numbers seem to have enthused India Inc, despite the visible slowing down in the last quarter due to Omicron worries. The industry chamber FICCI called it an "indicator of inherent resilience". Senior vice president of FICCI, Subrakant Panda, said, "India's GDP growth of 8.7 per cent for financial year 22 versus contraction of 6.6 per cent previous fiscal comes despite two Covid waves during the year and persistent global supply chain disruptions. It is an indicator of inherent resilience and sustained economic recovery."

India's GDP growth, along with growth in core sectors, have also come as a shot in the arm for the real estate sector. "(With) construction growth (11.5 per cent) and realty growth (4.2 per cent) reflecting sustainable housing demand and impetus to infrastructure projects, the 'engine of recovery' has been private consumption," said Niranjan Hiranandani, vice chairman of the National Real Estate Council (Naredco) and MD, Hiranandani Group.

"The real estate industry, which suffered a setback last year, is on its revival path recording a growth of 4.2 per cent in 2021-22 as against 2.2 per cent (last year)," said Vaibhav Jatia, managing director of Rhythm ResiTel, a Mumbai-based conglomerate which operates in realty and hospitality. "Similar growth numbers over the next few quarters will surely put the Indian economy back on its track," he added.